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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001070

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STATE FOR EAP/RSP/TC AND EB/TPP/BTA, STATE PASS AIT/W AND USTR, USTR FOR KI AND FREEMAN, USDOC FOR 4431/ITA/MAC/APOPB/MBMORGAN AND 3132/USFCS/OIO/EAP/ABACHER/ADESARRAN AND USDA FOR FAS/ITP

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TAGS: ETRD EAGR PGOV TW

SUBJECT: TAIWAN'S SPLIT PERSONALITY ON TRADE POLICY

Classified By: AIT DIRECTOR DOUGLAS PAAL FOR REASONS 1.4 (b/d)

¶1. (C) SUMMARY: Taiwan displays a split personality when it comes to trade policy. Open trade is desirable for the manufacturing and industrial sectors, but on agriculture, Taiwan takes a decidedly protectionist approach. Despite a dramatically improved environment in bilateral trade over the past year, AIT has seen growing protectionism in the agricultural arena. We plan to undertake a program to highlight the dichotomy in its trade policies to a wide range of Taiwan officials and recommend inclusion of this topic in the working level trade talks scheduled for March 30-31 in Taipei. End Summary.

¶2. (C) Taiwan supports an open trade policy for its manufacturing and industrial sector, but takes a decidedly different approach when it comes to agricultural trade. Even as Taiwan presses for access to the US market for orchids and cooked poultry products, it has: dragged its feet on finalizing a decision to reopen its market to US beef; notified anti-biotech import-export regulations to the WTO; made heavy use of special safeguards; and taken a very slow route in resolving technical issues over imports of US apples and half a dozen other agricultural products. US agencies and AIT are working closely with Taiwan agricultural officials on each of these issues and making incremental progress.

Focus on Protecting Agriculture

¶3. (C) The larger issue is that Taiwan is fundamentally committed to a protectionist agricultural trade policy. The farming community constitutes a substantial force in Taiwan's political system and has done so for decades. All political parties have strong roots in the agricultural sector and support protectionist policies that have resulted in subsidization of a traditional resource/labor-based agricultural sector that is an inefficient producer of rice, chickens and hogs. Despite agriculture constituting only two percent of GDP, agricultural interests are able to effectively compete with the water-hungry electronics industry to determine the allocation of 35 percent of Taiwan's scarce water resources.

¶4. (C) Aligned with the G-10, Taiwan actively opposes agricultural trade liberalization in the WTO Doha Round. While it is prepared to establish a country-specific quota system for public-sector rice imports, it is not willing to contemplate a general liberalization of its rice trade. These policies seem predicated on maintaining a protected agricultural market for the foreseeable future. Such policies actually hinder efforts to shift its farmers into producing specialized higher-value added products that could effectively use the limited land space available on this mountainous island of 14,000 square miles. In addition, the misallocation of land and other resources undermines Taiwan's economic efficiency.

¶5. (C) AIT observed Taiwan's split personality on trade policy in the very recent past. At a March 1 lunch meeting hosted by Franco Huang (Chih-peng), the Director General of the Board of Foreign Trade, Huang categorically stated that Taiwan would continue to ally itself with the G-10 and its agenda of limited agricultural trade liberalization. In the prior week, on February 24, John Chen, the newly appointed Director General of the Ministry of Foreign Affairs International Organization bureau, visited the Director to discuss APEC and WHO issues. Chen smoothly and confidently told us that Taiwan is fully supportive of US trade goals in APEC, viewing the proposals by the US as good for trade in general and for Taiwan in particular. Chen acknowledged that Taiwan has some issues in agricultural trade, but said that Taiwan is prepared to deal with those issues.

Taiwan Linking US Beef to Chicken?

¶6. (C) Part of the discussion with Huang concerned the timetable for lifting the ban on US beef imports. BOFT said that it thought that a decision "would be made soon," but

quickly added that it will be difficult for officials to explain to farmers why they are lifting the ban on beef when it has been taking such a long time to get Taiwan cooked poultry approved for sale to the US. During bilateral meetings held during the APEC High Level Policy Dialogue on Agricultural Biotechnology discussions in Seoul March 1-3, Council of Agriculture Vice Minister Lee Jen-chyuan suggested the same kind of linkage. Further, contacts in the COA have suggested to us privately that the ban on beef will not be lifted until Taiwan sees some movement on the poultry issue. (Note: The AIT/W - TECRO letter of March 7 setting the dates for the visit by USDA's Food Safety Inspection Service (FSIS) to inspect Taiwan's meat inspection and processing regime may be a useful tool to demonstrate US progress on Taiwan's interest in selling poultry to the US. AIT ECON and AG sections advised COA and BOFT officials of this letter the morning of March 8, prior to the afternoon meeting of the interagency panel charged with handling the beef ban. End note.)

Reduced Visibility in Ag Biotech Discussions

17. (C) In past APEC biotechnology discussions, Taiwan has been an active, contributing participant in member economies' discussions. During this most recent discussion, however, Chinese Taipei was relatively silent. It made no presentations, provided one meaningful intervention, and offered no substantive comments during the development of the Dialogue recommendations to the Senior Officials. Part of the reason for the delegation's reticence may have been the early return to Taipei of the delegation leader, COA Vice Chairman Lee Jen-chyuan. The COA chairman notified Lee on March 1 that he needed to return to Taipei, apparently to deal with issues raised by Taiwan's Legislative Assembly. Unfortunately, we see Taiwan's lackluster participation as a signal of a lack of interest on the part of Taiwan's Council of Agriculture in the biotechnology discussions and a lost opportunity for Taiwan to be an active and visible participant in an international trade organization. While Vice Chairman Lee appears ready and willing to forge ahead on modernizing Taiwan's domestic agricultural policies, COA Chairman Lee Ching-lung appears intent on maintaining the status quo in agricultural policies. Prior to AIT intervention, the COA Chairman was not going to allow Vice Chairman Lee to attend the APEC Biotech discussions.

Delayed Technical Discussions

18. (SBU) There have been additional irritants in the agricultural trade relationship. For over ten years the US and Taiwan have been alternately hosting technical-level discussions on agricultural trade concerns. Despite a decidedly improved trade relationship evident in 2004, COA repeatedly delayed setting dates for the technical discussions and in the end reneged on its written commitment to host the talks in the second half of February 2005. While the agencies involved have confirmed new dates in June, it is dismaying to have Taiwan's agricultural officials treat their commitments in so cavalier a fashion. In essence, Taiwan has passed on the entire year when it was its turn to host the annual discussions. As a result, resolution of technical issues impacting trade has slowed considerably.

19. (C) Comment: We recognize that Taiwan's agricultural policies are the product of many years of domestic political pressure, protection and a protectionist attitude. However, we think now could be a useful time to point out Taiwan's trade policy anomalies to officials across the government. To this end, we are setting up meetings with officials from the National Security Council, the Ministry of Economic Affairs, the Council for Economic Planning and Development and the Ministry of Foreign Affairs. We would also recommend that this topic be included in the working level trade talks now set for March 30-31 in Taipei. End comment.

PAAL